Central bank discount rates

	1979	1980	1981	1982	1983			Current	
	end Dec	end Dec	end Dec	end Dec	end Mar	end Jun	end Sep	Nov 22 1983	effective since
United States	12.00	13.00	12.00	8.50	8.50	8.50	8.50	8.50	Dec 15, 82
Canada	14.00	17.36	14.66	10.05	9.42	9.42	9.49	9.60	Nov 17, 83
Japan	6.25	7.25	5.50	5.50	5.50	5.50	5.50	5.00	Oct 22, 83
United Kingdom	17.00	14.00	14.37	10.00	10.56	9.50	9.50	9.00	Oct 4, 83
Belgium	10.50	12.00	15.00	11.50	11.00	9.00	9.00	9.00	Jun 23, 83
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	6.00	7.50	7.50	5.00	4.00	4.00	4.00	4.00	Mar 18, 83
Italy	15.00	16.50	19.00	18.00	18.00	17.00	17.00	17.00	Apr 9, 83
Netherlands	9.50	8.00	9.00	5.00	3.50	4.50	5.00	5.00	Sep 9, 83
Austria	3.75	6.75	6.75	4.75	3.75	3.75	3.75	3.75	Mar 18, 83
Denmark	11.00	11.00	11.00	10.00	8.50	7.50	7.50	7.00	Oct 27, 83
Finland	8.50	9.25	9.25	8.50	8.50	8.50	9.50	9.50	July 1, 83
Ireland	16.40	12.75	17.15	14.35	14.35	13.80	13.00	13.00	July 1, 83
Norway	9.00	9.00	9.00	9.00	9.00	9.00	8.00	8.00	Jun 6, 83
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	9.00	12.00	11.00	10.00	9.00	8.50	8.50	8.50	Apr 8, 83
Switzerland	2.00	3.00	6.00	4.50	4.00	4.00	4.00	4.00	Mar 18, 83
Argentina	89.90	87.01	98.50	[illegible]	128.54	128.54	183.75	183.75	Sep 5, 83
Korea	14.50	15.50	10.50	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
New Zealand	13.00	14.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
Philippines	4.00	4.30	4.00	4.00	4.00	4.00	4.00	4.00	May 19, 78
Singapore	6.75	10.50	9.50	7.00	7.00	7.00	7.00	7.00	Feb 19, 82
South Africa	7.00	7.00	13.50	13.50	13.50	13.50	13.50	13.50	Dec 15, 81
Venezuela	11.00	13.00	14.00	13.00	13.00	11.00	11.00	11.00	May 18, 83

Day-to-day money rates

monthly averages

	1980	1981	1982	1983							
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
United States	18.90	12.37	8.95	8.77	8.80	8.63	8.98	9.37	9.56	9.45	9.48
Canada	15.61	14.53	10.63	9.40	9.41	9.28	9.45	9.31	9.35	9.25	9.35
Japan	9.49	6.70	6.92	6.69	6.30	6.08	6.20	6.39	6.48	6.15	6.42
Australia	9.51	12.84	11.04	10.61	11.15	11.16	10.87	9.84	10.13	9.80	9.03
United Kingdom	13.00	9.13	6.70	7.50	7.63	6.00	6.63	6.60	6.31	7.30	7.81
Belgium	9.66	12.78	9.43	11.82	9.83	7.45	7.68	7.49	7.61	6.38	6.89
France	10.87	15.46	12.88	12.84	12.55	12.46	12.61	12.40	12.54	12.57	n.a.
Germany	9.13	10.65	6.07	5.49	4.93	5.00	5.05	5.04	5.07	5.43	5.53
Italy	17.50	20.63	19.00	19.00	18.00	18.00	17.80	17.75	17.88	17.69	17.75
Netherlands	8.37	10.67	5.31	4.41	5.18	5.22	5.06	5.29	5.77	5.68	5.82
Austria	11.50	7.50	6.00	5.38	4.88	4.38	4.50	5.00	5.00	5.50	5.63
Finland	12.50	11.30	11.50	13.00	13.00	15.00	15.00	15.00	15.00	16.67	16.95
Ireland	13.31	16.88	14.54	17.63	15.25	14.38	13.62	13.75	12.50	12.63	11.00
Norway	11.00	18.60	11.00	12.25	12.25	12.75	12.00	12.00	12.70	12.30	13.50
Spain	16.74	18.73	20.30	17.68	20.38	21.01	20.10	21.05	23.33	19.85	20.27
Sweden	11.41	13.82	8.63	11.20	11.00	11.00	11.05	11.00	10.15	11.30	12.00
Switzerland	5.75	3.38	1.25	3.13	3.88	3.88	3.00	3.00	2.00	2.00	1.75
Argentina	70.84	84.93	155.32	180.22	196.18	162.81	170.43	210.04	166.40	173.90	258.90
Brazil	62.71	103.74	150.42	164.70	266.06	220.06	n.a.	n.a.	n.a.	n.a.	n.a.
Hong Kong	14.05	10.75	9.13	9.63	10.40	11.38	12.38	7.00	6.81	13.25	18.00
Korea	14.82	14.40	13.84	13.70	13.60	13.40	13.40	12.70	12.70	12.80	12.80
Philippines	15.70	14.70	16.12	14.58	10.93	13.55	13.05	13.59	15.56	16.54	n.a.
Singapore	10.23	3.96	11.45	6.04	9.96	6.63	5.96	8.08	6.33	6.51	7.02
South Africa	5.60	12.34	12.90	8.25	9.71	9.73	10.91	12.29	13.62	13.43	13.66
Eurodollars	19.22	12.29	9.15	8.86	8.90	8.71	9.07	9.42	9.52	9.42	9.44

Treasury bill rates

bond-equivalent yields, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
United States	14.67	11.90	8.15	8.93	8.34	8.75	9.02	9.50	9.52	9.05	8.92
Canada	17.01	14.41	9.80	9.17	9.12	9.25	9.17	9.24	9.32	9.24	9.24
Japan	5.93	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42	5.42
Australia	12.17	13.27	9.39	14.11	11.14	11.83	11.93	10.59	10.96	10.34	9.38
United Kingdom	13.45	15.31	9.90	10.41	9.75	9.66	9.29	9.40	9.57	9.21	8.89
Belgium	12.75	16.00	12.25	12.00	10.35	10.00	9.50	9.25	9.25	9.25	9.50
Ireland	12.84	17.35	14.70	14.39	13.81	14.01	12.95	13.09	13.01	12.12	11.96
Italy	16.87	21.36	19.11	18.88	18.27	17.65	17.35	17.35	17.24	n.a.	n.a.
Netherlands	8.00	9.75	5.63	4.50	6.50	5.63	4.63	5.38	6.00	5.88	5.63
Spain	17.20	15.83	16.96	16.56	18.11	21.67	21.52	22.53	22.93	22.24	20.74
Sweden	12.87	9.20	8.18	7.13	7.13	7.13	7.12	7.12	7.13	7.13	7.13
Korea	16.35	16.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Mexico	27.73	33.22	57.44	64.24	62.85	63.04	62.36	61.10	57.89	n.a.	n.a.
New Zealand	11.25	11.25	11.25	11.25	12.00	12.00	12.00	7.80	7.80	7.80	7.80
Philippines	12.74	13.40	14.53	14.55	14.54	14.49	14.00	14.03	14.48	14.71	n.a.
Singapore	6.77	3.03	2.74	2.59	2.59	2.51	2.61	2.59	2.58	2.65	2.63
South Africa	6.31	14.55	14.62	11.35	11.53	11.81	13.96	14.46	16.19	15.49	15.66

Representative money-market rates

bond-equivalent yields on major short-term (mostly 3-4-month) money-market instruments, other than Treasury bills, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
United States	17.62	12.78	8.81	9.34	8.56	8.63	9.34	9.57	9.52	9.38	9.26
Canada	17.50	15.25	9.95	9.45	9.45	9.50	9.45	9.40	9.50	9.40	9.40
Japan	9.80	6.30	6.80	6.57	6.20	6.36	6.47	6.59	6.61	6.62	6.30
Australia	13.00	16.00	10.65	16.25	12.90	13.00	13.85	12.10	12.20	11.15	11.00
United Kingdom	14.75	15.69	10.50	10.69	10.19	10.25	9.75	10.06	9.75	9.56	9.31
Belgium	13.10	16.00	12.35	12.25	10.45	10.00	9.50	9.25	9.25	9.25	9.60
France	11.56	15.25	12.75	12.70	12.31	12.44	12.50	12.13	12.25	12.50	12.19
Germany	10.20	10.50	6.20	5.30	5.18	5.25	5.55	5.50	5.85	5.80	6.15
Ireland	13.63	18.50	15.75	15.25	15.25	14.75	13.63	13.88	13.38	12.69	12.53
Italy	17.37	21.00	19.00	19.00	17.75	17.75	17.50	17.50	17.60	17.50	17.63
Netherlands	9.37	11.00	5.25	4.25	6.00	6.13	5.38	5.69	5.31	6.25	6.13
Spain	17.40	15.52	16.55	15.86	18.91	21.57	20.76	22.48	24.04	22.06	22.19
Switzerland	7.50	10.12	3.88	4.00	4.50	4.75	4.81	4.85	4.44	4.25	4.25
Hong Kong	17.69	14.18	10.13	9.50	10.06	11.50	12.88	9.88	8.94	12.75	16.88
Korea	16.35	15.69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
New Zealand	14.25	16.05	16.75	14.00	14.00	16.00	16.75	12.75	10.25	10.00	10.75
Philippines	15.01	17.61	15.91	15.78	14.34	15.57	15.06	15.96	15.62	16.49	n.a.
Singapore	14.12	7.81	8.69	6.56	7.38	7.56	7.81	7.88	7.38	7.38	7.50
South Africa	7.12	15.47	15.26	12.11	12.16	12.21	14.88	14.94	16.61	16.45	16.94

Commercial bank deposit rates

at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
United States	16.25	12.62	8.25	9.15	8.40	8.88	9.18	9.65	9.65	9.20	9.30
Canada	17.00	15.20	9.85	9.40	9.35	9.40	9.35	9.35	9.45	9.35	9.35
Japan	9.00	6.50	7.00	6.98	6.40	6.60	6.67	6.80	6.83	6.88	6.45
Australia	12.71	15.65	10.20	15.48	12.82	12.68	14.84	12.05	11.88	10.56	10.96
United Kingdom	14.87	15.69	10.31	10.75	10.19	10.28	n.a.	10.06	9.78	9.50	9.25
Belgium	12.63	15.50	12.25	12.88	10.38	10.13	9.25	9.13	9.25	9.50	9.38
France	11.25	9.16	8.24	8.24	8 24	8.24	8.24	8.24	7.30	7.80	n.a.
Germany	8.00	9.50	6.00	4.75	4.75	4.85	4.90	4.90	4.90	5.63	5.60
Italy	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13 25	13.25	13.25
Netherlands	9.50	11.00	5.38	4.25	6.13	6.25	5.50	5.63	5.25	6.13	6.06
Austria	11.25	9.63	6.25	5.50	5.25	4.69	5.00	5.31	5.56	6.06	6.31
Denmark	10.00	10.00	9.00	7.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Finland	5.00	5.00	4.25	4.25	4.25	4.25	4.25	5.25	5.25	5.25	5.25
Ireland	13.63	18.38	15.25	15.13	14.75	14.50	13.25	13.50	13.13	12.25	12.50
Norway	11.00	12.75	13.50	12.50	12.00	12.50	12.50	12.50	12.50	12.50	12.50
Spain	4.50	11.78	12.53	11.98	12.30	12.36	12.47	12.28	12.28	12.24	n.a.
Sweden	9.75	10.25	9.50	8.50	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Switzerland	7.50	8.75	3.00	2.75	3.50	3.75	4.25	4.00	3.75	3.75	3.50
Argentina	72.00	86.76	103.42	121.66	121.66	121.66	108.28	127.75	139.92	176.41	176.41
Brazil	96.49	110.05	118.26	119.29	128.81	137.28	n.a.	n.a.	n.a.	n.a.	n.a.
Hong Kong	13.00	12.50	7.50	7.50	8.50	11.00	10.50	8.50	8.50	12.00	12.00
Korea	14.82	14.40	7.60	7.60	7.60	7.60	7.60	7.60	7.60	7.60	7.60
Mexico	26.15	31.81	52.54	60.27	60.46	60.35	60.03	59.25	57.33	n.a.	n.a.
New Zealand	13.50	15.50	16.50	12.75	12.75	14.75	16.50	10.00	9.00	9.00	9.50
Philippines	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Singapore	13.19	7.50	8.25	6.19	6.88	7.07	7.01	7.44	6.88	6.81	7.07
South Africa	7.87	14.75	15.25	12.00	12.25	12.35	14.75	14.95	16.62	17.00	17.00
Venezuela	16.00	14.75	15.50	16.00	16.00	15.00	14.00	13.50	13.00	12.50	12.00

Commercial bank lending rates to prime borrowers

at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
United States	21.50	15.75	11.50	10.50	10.50	10.50	10.50	10.50	11.00	11.00	11.00
Canada	18.25	16.50	12.50	11.50	11.00	11.00	11.00	11.00	11.00	11.00	11.00
Japan	8.16	6.95	6.28	6.27	6.26	6.26	6.25	6.25	6.24	6.25	6.25
Australia	13.50	15.75	15.00	16.00	15.75	15.00	16.00	14.50	14.50	14.00	13.25
United Kingdom	15.00	14.50	10.00	10.50	10.00	10.00	9.50	9.50	9.50	9.50	9.00
Belgium	15.75	18.00	15.50	15.00	14.00	14.00	13.25	12.50	12.50	12.50	12.50
France	12.25	14.00	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25
Germany	11.50	13.00	8.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Italy	20.50	22.50	20.75	20.00	19.50	18.75	18.75	18.75	18.75	18.75	18.75
Netherlands	10.75	12.00	6.25	5.00	5.75	6.25	6.25	6.25	6.75	7.00	6.75
Austria	12.50	13.50	11.75	11.00	9.75	9.75	9.25	9.25	9.25	9.25	9.25
Denmark	13.75	15.00	14.00	12.00	11.00	11.00	10.50	10.50	10.50	10.50	10.50
Finland	9.83	9.84	8.95	8.95	8.97	9.00	9.07	10.07	10.10	10.16	n.a.
Ireland	14.50	17.25	16.50	17.50	16.25	16.25	15.00	15.00	15.00	13.75	13.75
Norway	12.50	13.75	14.50	14.50	14.50	14.50	14.50	14.00	14.00	14.00	14.00
Spain	18.50	17.04	19.00	17.65	19.27	22.40	22.73	23.47	25.19	24.09	23.70
Sweden	11.75	13.50	12.50	11.50	11.00	11.00	11.00	11.00	11.00	11.00	11.00
Switzerland	5.75	8.00	6.00	5.50	5.50	5.50	5.50	6.00	6.00	6.00	6.00
Argentina	77.00	92.60	109.50	133.63	175.00	170.00	184.00	240.00	152.08	188.58	188.58
Brazil	96.45	138.09	166.49	190.83	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Hong Kong	17.00	16.00	10.50	10.50	11.50	11.50	13.50	11.50	11.50	16.00	15.00
Korea	19.50	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Mexico	24.25	31.81	46.12	56.16	57.21	58.14	58.63	58.73	58.23	57.78	57.14
New Zealand	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	11.00	11.00	11.00
Philippines	16.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
Singapore	13.60	11.83	9.33	9.10	9.03	9.03	8.88	9.00	9.00	8.95	8.93
South Africa	9.50	17.00	18.00	14.00	14.00	14.00	16.00	16.00	18.00	18.00	18.00
Venezuela	15.00	15.50	17.00	17.50	17.50	17.00	17.00	16.50	16.25	16.00	16.00

Domestic government bond yields

long-term issues, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
United States	11.46	14.33	10.61	10.85	10.52	10.91	11.20	11.95	11.77	11.65	11.85
Canada	12.69	15.27	11.69	11.70	11.18	11.30	11.56	12.03	12.34	11.76	11.73
Japan	9.04	8.32	7.76	7.80	7.77	7.80	7.78	7.87	7.80	7.58	7.51
Australia	13.00	15.00	13.00	15.00	13.85	14.80	15.10	15.00	14.60	14.40	13.70
United Kingdom	13.05	15.02	10.62	10.52	10.28	10.10	10.12	10.71	10.65	10.15	10.13
Belgium	13.04	13.99	12.66	12.49	11.59	11.63	11.53	11.42	11.46	11.39	11.32
France	14.31	16.44	15.40	14.65	14.55	14.55	14.52	14.04	13.96	14.03	n.a.
Germany	9.19	9.71	7.90	7.61	7.74	8.09	8.11	8.27	8.55	8.43	8.30
Italy	16.23	21.39	19.62	18.76	18.11	18.13	18.22	18.42	18.11	n.a.	n.a.
Netherlands	10.48	11.28	8.16	8.19	8.83	9.30	9.00	9.08	9.03	8.80	8.53
Austria	9.62	10.37	8.81	8.18	8.09	8.07	8.14	8.18	8.31	8.32	n.a.
Denmark	19.98	20.91	20.14	15.16	14.27	14.34	15.54	15.63	14.97	n.a.	n.a.
Finland	10.42	10.98	10.64	10.59	10.58	10.89	10.55	10.58	11.20	10.97	11.19
Ireland	15.63	18.28	14.54	13.96	13.62	13.51	13.61	13.81	13.60	13.72	13.82
Norway	10.44	12.37	13.32	13.00	12.75	12.75	12.50	12.50	12.50	12.50	12.50
Spain	16.15	16.20	15.92	16.47	17.05	17.31	17.63	17.60	18.31	18.76	n.a.
Sweden	12.61	12.80	13.01	12.59	12.22	12.14	12.17	11.85	11.24	12.20	12.20
Switzerland	4.63	5.40	4.22	4.46	4.42	4.51	4.59	4.76	4.73	4.71	4.61
New Zealand	12.99	12.55	12.84	12.69	13.95	14.00	13.59	14.02	n.a.	n.a.	n.a.
Philippines	13.40	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41
South Africa	11.81	13.62	11.31	12.17	12.26	12.85	14.15	13.27	13.16	12.93	13.33
Venezuela	7.39	12.50	15.00	15.50	15.75	15.75	15.75	15.00	15.00	14.00	14.00

Domestic corporate bond yields

long-term issues, at or near end of month

	1980	1981	1982	1983							
	Dec	Dec	Dec	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
United States	13.00	15.50	11.75	11.63	11.00	11.75	11.75	12.75	12.50	12.25	12.63
Canada	13.62	16.48	13.05	12.92	12.29	12.59	12.47	13.09	13.24	12.63	12.64
Japan	8.60	7.70	7.55	7.39	7.37	7.16	7.30	7.34	7.32	7.30	7.29
Australia	14.25	16.50	15.00	16.25	16.00	16.00	16.00	15.75	15.50	15.00	15.00
United Kingdom	14.21	16.55	12.34	12.34	12.14	12.12	11.89	12.34	12.27	11.89	11.84
France	15.23	17.33	15.91	15.03	14.87	14.85	14.86	14.76	14.48	14.36	n.a.
Germany	9.50	10.50	8.20	7.60	7.30	7.40	7.90	8.00	8.10	8.30	8.30
Netherlands	10.71	11.03	7.80	7.86	8.65	8.91	8.79	8.75	8.79	8.68	8.39
Norway	11.24	13.36	14.13	13.75	13.50	13.50	13.25	13.25	12.25	13.25	13.25
Spain	14.82	14.76	17.10	17.02	17.22	16.77	16.86	18.00	19.59	20.05	20.37
Sweden	11.95	12.94	13.37	13.34	12.85	12.89	12.79	12.85	12.77	12.99	12.40
Switzerland	5.63	6.60	5.92	5.93	5.98	5.94	6.06	6.10	6.21	6.43	6.27
Korea	28.20	27.00	15.90	14.40	14.00	13.90	13.90	13.90	13.90	14.20	14.10
Venezuela	16.15	17.00	18.00	18.00	18.25	18.00	18.00	18.00	18.00	18.00	18.00

Key to data in tables

I. International markets

Definitions

An *international bond* issue is one sold outside the country of the borrower. It may be either a Euro-bond issue or a foreign bond issue.

A *Euro-bond* issue is one underwritten by an international syndicate and sold principally in countries other than the country of the currency in which the issue is denominated.

A *foreign bond* issue is one underwritten by a syndicate composed of members from one country, sold principally in that country, and denominated in the currency of that country.

A *Euro-currency bank credit* is a loan in a currency which is not native to the country in which the bank office making the loan is located.

Data on *new international bond issue volume* include all publicly announced issues with an original maturity of three years or more, whether publicly or privately placed, but exclude those where the investor is a central bank, monetary authority, or government.

Data on *new Euro-currency bank credit volume* include all publicly announced loans with an original maturity of one year or more. A loan is included in the period in which the lending banks make a commitment covering the amount and terms of the loan to the borrower.

Categories of borrower

U.S. companies include both parent companies and their financing affiliates, either domestic or foreign.

Other companies include private companies domiciled outside the United States and their affiliates.

State enterprises include public agencies.

Governments include central and local governments.

Country of borrower

The country of the borrower is the residence of the borrowing entity, except where the entity is a financing vehicle, in which case the residence of the parent company and or guarantor is used.

International bond yields

Yields are calculated to the nearest day of maturity. Interest on bonds with annual coupons is discounted semiannually for comparability in computation of yield.

The yield indices are simple arithmetic averages of end-of-month secondary market yields for groups of selected straight-debt securities. Yield indices for six categories of bonds have been calculated according to borrower and currency. They are based on issues of good-quality, well-known borrowers. Occasionally the individual issues in each category are changed.

The number of issues represented in each of the indices is as follows:

Long-Term, U.S. companies, U.S. dollar — —ten Euro-bond issues.

Long-term, U.S. companies, Swiss franc — four foreign bond issues.

Long-term, European companies, U.S. dollar — ten Euro-bond issues.

Long-term, European companies, German mark — ten Euro-bond issues.

Long-term, governments, U.S. dollar — six Euro-bond issues (governments of Italy, Denmark, and France).

Euro-currency deposit rates

All data are prime banks' bid rates for deposits in London. Offer rates commonly used as a basis for Euro-dollar lending are generally .125% above bid rates.

II. Domestic markets

Day-to-day money rates

Argentina — 7-day interbank money.

Austria — day-to-day interbank rate.

Australia — approximate effective interest rate in the authorized short-term money market.

Belgium — interbank call money.

Brazil — overnight financing of Treasury bills (LTN) until November 1978. New series as of December 1978, rates paid for federal funds.

Canada — chartered banks' day-to-day loans.

Finland — Bank of Finland call money.

France — interbank call money against private paper.

Germany — interbank call money.

Hong Kong — interbank 24-hour call rate.

Ireland — interbank call money.

Italy — interbank 48 hour call money.

Japan — Tokyo interbank call money, unconditional lenders rate.

Korea — call money.

Netherlands — open-market call money.

Norway — day-to-day interbank rate.

Philippines — interbank call money.

Singapore — interbank overnight money.

South Africa — National Finance Corporation call money.

Spain — day-to-day interbank rate.

Sweden — interbank call money.

Switzerland — call money.

United Kingdom — call money.

United States — effective Federal funds rate.

Euro-dollars — prime banks' bid rate for overnight money.

Treasury bill rates

Australia — new issues of 13-week Treasury notes.

Belgium — 3-month Treasury certificates.

Canada — 3-month Treasury bills at tender.

Ireland — 3-month Central Bank Exchequer bills.

Italy — 6-month Treasury bills.

Japan — 60- to 62-day noninterest-bearing discount government bills.

Korea — 3-month Treasury bills until May 1981. New series as of June 1981, 1-month Treasury bills sold by Central Bank.

Mexico — 3-month Federal Treasury bills.

Netherlands — 3-month Treasury bills.

New Zealand — 3-month Treasury bills.

Philippines — 91-day Treasury bills at tender.

Singapore — 91-day Treasury bills at tender.

South Africa — 3-month Treasury bills at tender.

Spain — Bank of Spain 3-month certificates of deposit.

Sweden — new issues of 3-month Treasury bills.

United Kingdom — 91-day Treasury bills at tender.

United States — 3-month Treasury bills.

Representative money-market rates

Australia — 3-month prime finance company paper.

Belgium — 4-month Fonds des Rentes certificates.

Canada — 3-month prime finance company paper.

France — 3-month interbank money against private paper.

Germany — 3-month interbank deposits.

Hong Kong — 3-month interbank deposits.

Ireland — 3-month interbank deposits.

Italy — 3-month interbank deposits.

Japan — 3-month repurchase agreements.

Korea — 3-month financial bill.

Netherlands — 3-month interbank deposits.

New Zealand — 90-day commercial bills.

Philippines — 90-day promissory notes.

Singapore — 3-month bank acceptances.

South Africa — 90-day bank acceptances.

Spain — 1-month interbank deposits.

Switzerland — 3-month interbank deposits.

United Kingdom — 3-month interbank deposits.

United States — 3-month prime industrial paper.

Commercial bank deposit rates

Argentina — nominal 30-day time deposits. Average of bank rates published by the Central Bank.

Austria — 3-month time deposits.

Australia — 3-month certificates of deposit.

Belgium — special maximum rate for 3-month time deposits in large amounts.

Brazil — 6-month negotiable certificates of deposit of investment banks net of taxes.

Canada — 3-month time deposits.

Denmark — time deposits of 3-months' notice.

Finland — time deposits of six-month notice.

France — 3-month time deposits of FF. 1,000,000.

Germany — 3-month time deposits in large amounts.

Hong Kong — 3-month certificates of deposit. Rate set by the Hong Kong Association of Banks.

Ireland — 3-month time deposits.

Key to data in tables — continued

Italy — 3-month time deposits of Lit. 100 million or more.

Japan — 3-month time deposits until April 1979. New series as of May 1979, 90-day negotiable certificates of deposit issued by the Tokyo office of Morgan Guaranty Trust Company.

Korea — 3-month time deposits.

Mexico — 3-month certificates of deposit issued by financieras to corporations for amounts over Ps. 1 million. Higher rates available to individuals.

Netherlands — 3-month time deposits in large amounts.

New Zealand — 6-month transferable certificates of deposit.

Norway — 3-month time deposits issued to ordinary savers until June 1975. New series, as of July 1975, 3-month special term deposits.

Philippines — 3-month time deposits.

Singapore — 3-month certificates of deposit.

South Africa — negotiable certificates of deposit.

Spain — maximum legal rate for 3-month deposits until May 1981. New series as of June 1981, deposits over 6-months and less than 1-year for Pts. 1 million or more reported by the Bank of Spain.

Sweden — deposits at 6-months' notice.

Switzerland — 3-month time deposits.

United Kingdom — 3-month time deposits.

United States — 3-month negotiable certificates of deposit issued by Morgan Guaranty Trust Company.

Venezuela — 6-month negotiable certificates of deposits for large amounts until December 1978. New series as of January 1979, similar rate for domestic depositors only.

Commercial bank lending rates to prime borrowers

Argentina — average rate on 30-day loans.

Austria — overdraft rate for prime borrowers, including commission.

Australia — approximate overdraft rate for prime borrowers.

Belgium — prime overdraft rate.

Brazil — weighted average investment bank lending rate for multinational companies including tax on financial obligations (IOF).

Canada — prime rate.

Denmark — approximate rate for loans and advances to prime borrowers.

Finland — average rates on total commercial bank lending.

France — base lending rate, excluding a commission of .05% per month on highest debit balance during the month.

Germany — approximate effective overdraft rate for prime borrowers.

Hong Kong — prime rate.

Ireland — AA corporate borrowing rate.

Italy — unsecured overdraft rate for prime borrowers.

Japan — average contracted interest rate for short-term loans of city banks. In addition, compensating balances may be required.

Korea — prime rate.

Mexico — base rate or average cost of money for banks determined monthly by the Banco de Mexico S.A.

Netherlands — overdraft rate for prime borrowers, including commission.

New Zealand — overdraft rate for prime borrowers.

Norway — overdraft rate, including a commission of .333% prior to July 1978, .25% thereafter, per quarter on the total line of credit.

Philippines — maximum legal rate, for unsecured loans exclusive of service fee.

Singapore — most common overdraft rate, major banks.

South Africa — unsecured overdraft rate for prime borrowers.

Spain — maximum legal rate for discounting commercial bills plus a commission of 1% per annum until December 1979. New series as of January 1980, preferential rate for 1-month loans calculated by the Bank of Spain.

Sweden — actual interest rate on 3-month loans to prime industrial borrowers.

Switzerland — unsecured overdraft rate for prime borrowers, excluding commission of .25% per quarter on average or highest outstanding debit balance in quarter.

United Kingdom — clearing bank base lending rate.

United States — prime rate of Morgan Guaranty Trust Company.

Venezuela — representative rate for prime borrowers until December 1978. New series as of January 1979, similar rate for domestic prime borrowers only.

Domestic government bond yields

Austria — Austrian National Bank average yield on all outstanding government bonds.

Australia — 20-year government bonds.

Belgium — Belgian National Bank average yield on government bonds maturing in more than five years.

Canada — Bank of Canada average yield on all direct government bonds due or callable in 10 years or more.

Denmark — 10% government bond maturing 1983 until December 1977; 10% government bonds maturing 1986 until September 1980. New series as of October 1980, 12% serial bonds maturing 2001.

Finland — rate of interest at issue on central government bonds intended for public subscription, weighted by sales of bonds in the latter half of each month.

France — Institut National de la Statistique et des Etudes Economiques (INSEE) yield on public and semi-public sector bonds.

Germany — Frankfurter Allgemeine Zeitung (FAZ) 7% public authority bond average until September 1978. New series as of October 1978, FAZ 10-year public authority bond average.

Ireland — 15-year government bonds.

Italy — average yield on fixed-interest government bonds, not including irredeemable bonds, weighted by the amounts in circulation, for maturities of 9-years or more.

Japan — secondary market yield for the 6.1% due 1988 national government bond.

Netherlands — Central Bureau of Statistics (CBS) average yield on three latest government bonds.

New Zealand — average yield on government bonds maturing after 10 years.

Norway — 5% government bond of 1996 until December 1982. New series as of January 1983, average yield of long-term government bonds.

Philippines — Central Bank 5-year Certificate of Indebtedness, regular issue.

South Africa — 25-year government bonds until August 1983. New series, as of September 1983, 20-year Republic of South Africa bonds.

Spain — weighted average of yields of several central government issues with original maturity of less than five years.

Sweden — 15-year government bonds.

Switzerland — Swiss Confederation bond average.

United Kingdom — F.T. (Financial Times) Actuaries 25-year government stock.

United States — Morgan Guaranty 20-year U.S. Government Bond Index.

Venezuela — Banco Central average yield on public-sector bond issues.

Domestic corporate bond yields

Australia — long-term secured debentures, indicated by Australian United Corporation.

Canada — McLeod, Young, Weir Co. Ltd., average yield on ten industrial bonds.

France — INSEE tax-adjusted average yield on outstanding private corporate bonds.

Germany — FAZ 6% industrial bond average until September 1978. New series as of October 1978, Bundesbank average yield on industrial bonds

Japan — secondary market yield for NTT bond maturing March 1987.

Korea — average of yields on 3-year corporate bonds guaranteed by local banks.

Netherlands — CBS average yield on three 6% to 6.5% corporate bonds until December 1981. New series as of January 1982, yield of domestic long-term bonds issued by major banks.

Norway — 5.75% Dalen Portland-Cement bond of 1969-1984 until December 1982. New series as of January 1983 average yield of long-term industrial bonds.

Spain — average yield for a selected group of electricity companies.

Sweden — Central Satistical Bureau average yield on industrial bonds.

Switzerland — average yield on outstanding bonds of four leading Swiss companies.

United Kingdom — F.T. (Financial Times) Actuaries 20-year debentures and loans until February 1981. New series as of March 1981, F.T. Actuaries 25-year debentures and loans.

United States — Salomon Brothers index of new issue yields for Aa industrial bonds with five-year call protection.

Venezuela — average of yields on 15-year bond issues of Electricidad de Caracas.

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12/30/83
BC210-2

World Financial Markets

Morgan Guaranty Trust Company of New York

December 1983

Europe's economic woes, 1

Economic developments in 1983, 2

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Short-term outlook and medium-term prospects, 6

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Europe's economic woes

The failure of this month's European Community summit in dealing with budget issues and the Common Agricultural Policy dramatized the seriousness of Europe's economic problems. Resolution of political and economic differences among EC members has always been difficult. But in the prosperous years before 1973, rapid economic growth provided a relatively painless solution, and the Community made impressive strides toward a genuinely common market. After the first oil shock, however, momentum was lost and such structural problems as inflation, public-sector excesses, obsolete industrial structures, and labor market rigidities became ever more evident. Stagnant employment and rising joblessness have fostered pursuit of narrow national interests and have handicapped constructive political and economic evolution of the Community.

European economic recovery from the second oil shock has been very weak, relative both to previous cyclical experience and the surging U.S. expansion. Europe's growth prospects are only a little better for 1984 and promise no reversal in the dramatic increase in unemployment that has occurred over the past few years. There are now about 12 million unemployed workers in the European Community alone.

The slow, hesitant pace of European recovery has two immediate causes. First, stagnation in most export markets has blunted external demand. Second, domestic priorities, particularly the desire to curb inflation and to reduce budget deficits, have largely precluded policy measures to stimulate domestic demand. Recovery has also been inhibited by serious structural problems that will have to be tackled before Europe's potential for stronger growth can be realized.

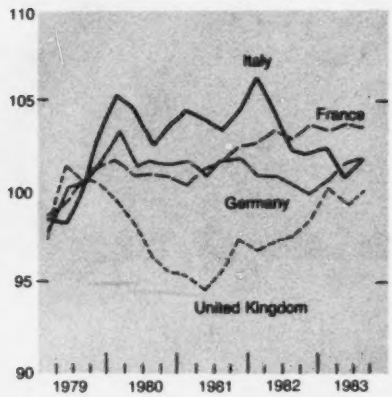
The hope remains that deficit reduction and public-spending curbs will eventually contribute to higher growth by releasing resources to the private sector, even though growth has clearly suffered in the short run. Private investment should benefit from the decline in real interest rates expected as government borrowing declines. This strategy contrasts sharply with that in the United States, where the fiscal deficit is spurring vigorous economic expansion but raises questions about long-term sustainability.

If European investment is to grow rapidly, the profitability of the private sector has to increase. It can be bolstered by tax incentives, reduced social charges, and less-regulated labor practices. Slower

Chart 1

*Real GNP**

index, 1979 = 100
quarterly averages

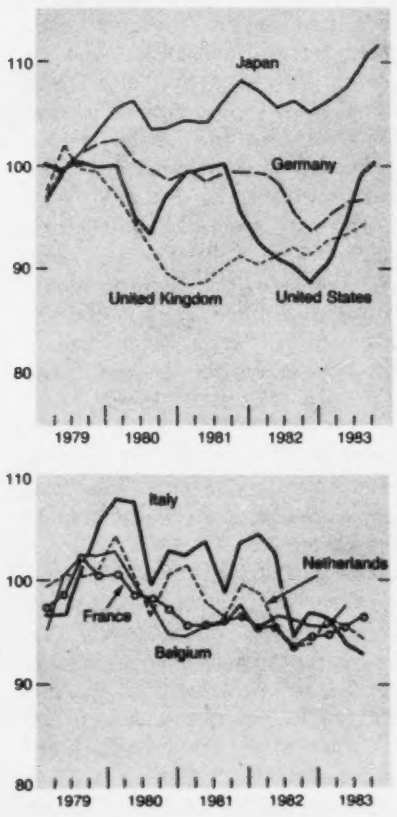


* GNP for the United States, Japan, and Germany; GDP elswhere. This applies in all subsequent references to GDP.

Chart 2

Industrial production

index, 1979 = 100
quarterly averages



increases in real wages overall and greater flexibility in wage structures are also needed. Such measures to restore the health and competitiveness of the private sector are the only hope for European nations to arrest the further rise of unemployment.

Economic developments in 1983

Real GDP of the four major European economies as a group has expanded this year by rather less than 1% — positive, but hardly a decisive break with the stagnation that has generally prevailed since 1979 (see Chart 1). That stagnation stands out even more starkly when measured by changes in industrial production and employment. At its trough toward the end of 1982, industrial production of the major four was 6% lower than at the end of 1979 (see Chart 2). The total number of employed workers in these economies is thought to have fallen 3% between 1979 and 1983. Increases in the labor force were not absorbed, and the unemployment rate rose sharply. With a modest recovery in domestic demand this year, however, industrial production has begun to increase and unemployment has leveled out, at least in Germany and the United Kingdom.

European economies can be placed in two categories. Germany, the United Kingdom, and the Scandinavian countries have achieved some recovery in 1983 and should expand further in 1984. Most other economies in Western Europe — notably France, Italy, and the Benelux countries — have stagnated. Their governments seek to lower inflationary pressures and to cut fiscal and external payments deficits. Significant economic growth will not resume in these economies before the second half of 1984.

The United Kingdom has been recovering slowly since 1981. By the third quarter of 1983, real GDP had finally surpassed its former peak in 1979. Britain's recovery has depended entirely on domestic spending. Aggregate demand was bolstered initially by a slower pace of inventory liquidation, but since the middle of 1982 consumer spending has risen strongly and continues robustly even now.

Britain's manufacturing sector, which was devastated in the recession, has recovered little. Manufacturing output in October 1983 was still 17% below its 1979 high and no stronger than in late 1981. Recession and the fall in manufacturing output led to an immense increase in U.K. unemployment, from 5% in 1979 to a peak of 12.7% last spring before a slight drop in recent months (see Chart 3). The number of unemployed has reached about 3 million, and employment in the manufacturing sector has dropped 25%.

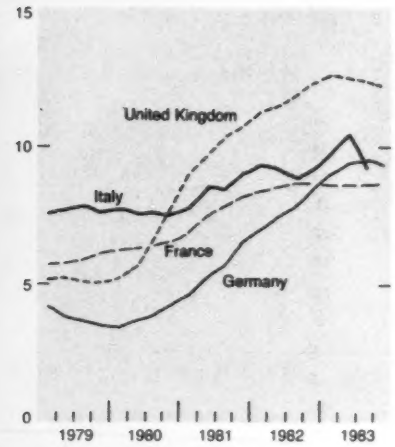
U.K. inflation — over 20% at one stage in 1980 — has fallen to only 5% in the 12 months ended in October. Recessionary pressures and sterling's high real exchange rate contributed to the drop. Heightened foreign competition and sluggish domestic demand have stimulated strong efforts to cut industrial costs by improving productivity and shedding excess labor. More important, wage increases have come down. Earnings are now growing at an annual rate of about 8%, compared with a 26% peak in 1980, while unusually rapid productivity gains are holding down unit labor cost increases.

Germany's economic recovery began toward the end of 1982. Real GNP, which declined throughout 1982, rose at an annual rate of 2.5% in the first nine months of 1983. Although growth paused temporarily in the third quarter, real GNP was 1.3% higher than a year earlier. In-

Chart 3

Unemployment rates

monthly averages
in percent



dustrial production has risen 5% from the trough in late 1982 but remains well below its previous peak. Since the end of 1981 the number of unemployed workers increased over 50% to 2.3 million. The unemployment rate, 3.8% in 1980, climbed past 8% in 1982 and has recently leveled out at about 9.4%. Despite the improving economy, however, Germany's manufacturing employment continues to fall, with a 9% cumulative decline since 1980 as of mid-1983.

As in the United Kingdom, and in the face of declining exports, recovery in Germany was led by growing domestic demand. There has been a sharp decline in the savings rate, which is now about 13% compared to an average 14.4% in 1982. This enabled private real consumption to grow close to 8% annualized in the first quarter, although consumption has since plateaued. Increases in investment and construction spending now provide the main support to domestic growth. By the third quarter, investment spending on machinery and equipment was 3.5% higher in real terms than a year ago while construction spending rose 1.5%. Rising manufacturing orders point to continuing increases in investment spending in the months ahead.

Germany's 1982 recession and higher unemployment have brought down inflation. The 12-month increase in the CPI reached 6.3% at the end of 1981 but fell to 4.6% in December 1982 and to a low of 2.4% in June. In November the increase was 2.6% from a year ago. Lower wage increases and an increase in productivity have combined to reduce German unit wage costs. In the first half of the year these were down 1.7%.

In contrast to the recoveries in Germany and the United Kingdom, real GDP is projected to decline this year by about 0.2% in France and 1% in Italy. High real interest rates and declining exports are to blame in Italy, while the stagnation in France results from a temporary wage-price freeze in 1982 and the austerity package adopted by the government in conjunction with the EMS realignment last March.

French consumption has held flat in real terms. A fall in the savings rate has prevented a decline in consumer outlays even though real disposable incomes have decreased. Investment has sagged. In the third quarter real gross fixed investment was 3.6% lower than a year ago. Both business investment and residential construction have been declining. Residential construction began to slide in late 1981. Business investment declined sharply after the implementation of the austerity package but had already been falling since mid-1982.

The French austerity package has succeeded in reducing imports. Declining domestic demand and the increase in competitiveness acquired through the EMS realignment have also spurred a rise in exports, particularly to Germany. Sooner than expected, increasing export volume and declining import volume have each helped narrow the current account deficit. The current account even showed a surplus in the third quarter, following a large deficit earlier in 1983.

The austerity package has been less successful in curbing inflationary pressures. Inflation has declined somewhat, helped by the temporary wage-price freeze implemented at the end of 1982 and the informal price restraints imposed since then. On a 12-month basis, the increase in the CPI fell from 14% at the end of 1981 to 9.4% at the end of 1982, but it was again above 10% this past October. The original government target of 8% inflation for 1983 is unattainable; the more likely outcome is 9.5% or higher. The princi-

Table 1

Export shares in GDP

	Merchandise exports	
	$ billions	As % of GDP
EC	573	24.2
Germany	176	26.7
France	92	16.9
Italy	73	20.9
United Kingdom	97	20.4
United States	211	6.9
Japan	138	13.0

Table 2

Export volume

percent change

	Latest month	Latest month from year earlier	Year to-date from year earlier
Germany	Sep	4.2	—1.8
France	Sep	7.3	3.4
Italy	Aug	—2.7	—0.5
United Kingdom	Oct	3.3	0.5

pal reason for the stickiness in inflation is the continuing increase in wages. French productivity gains have offset little of the impact of high nominal wage increases on unit labor costs. Also, there has been much less labor shedding in France than in other economies in the face of stagnant output. The unemployment rate rose from 7.6% in 1981 to 8.6% in 1982 and has held relatively stable at that level. Meanwhile manufacturing employment fell 6% from the beginning of 1981 through mid-1983.

Export weakness

The slowdown in international trade has had a strong depressing effect on Europe, where exports are a larger component of GDP than in the United States or Japan (see Table 1). For the EC as a whole, export volume rose only about 0.5% in the first half of this year from a year earlier, and foreign sales were down 5.7% in dollar terms. However, measured from the lows of late 1982, European export volumes have strengthened significantly (see Table 2).

The bright spot for European exporters this year has been North America, where strong economic growth and the appreciation of the dollar have raised demand for imports. Although EC exports to North America increased less than 2% in dollar terms in the first six months of 1983, compared with the first half of 1982 (see Table 3), they have been quickly rising since the spring according to U.S. import data. Particularly strong gains were recorded for France and Britain among the major four. Still, exports to the United States and Canada are not enough, by themselves, to give European economies a major boost, because less than 8% of overall EC exports are destined for North America.

Elsewhere, Europe's export markets remain weak. This is especially true of developing countries, which, absorbing 18% of EC export sales, together constitute a much larger market for European exporters than does North America. EC exports to developing countries in the first half of 1983 fell 14% in dollar terms, principally because OPEC countries cut back spending in the wake of the decline in oil prices and their shift into current account deficit. EC exports to Latin America also fell sharply as the debt crisis enforced austerity.

More than half of EC exports go to other EC countries. Because of this interdependence, economic slowdown in Europe is self-reinforcing, with weak demand in one country inducing economic weakness in neighboring countries. This in turn reduces aggregate demand in the first economy as exports fall. In the first half of 1983, intra-EC exports were down 3.6% in dollar terms from those in the first six

Table 3

Europe's export markets: distribution and growth

	Shares in total exports, 1983 first half*					
	Industrial countries			Developing countries		
	Total	Intra-EC	North America	Total	OPEC	Socialist countries
EC	75.9	53.3	7.7	18.1	8.2	3.8
Germany	76.5	49.3	7.3	15.8	7.6	5.2
France	69.5	49.4	6.1	24.5	9.3	4.7
Italy	68.2	46.5	7.8	24.4	13.9	4.3
United Kingdom	74.1	44.3	14.3	21.7	9.4	2.0

	Percent change in dollar terms, 1983 first half from 1982 first half						
		Industrial countries			Developing countries		
	Total	Total	Intra-EC	North America	Total	OPEC	Socialist countries
EC	—5.6	—4.6	—3.6	1.4	—13.6	—18.6	12.4
Germany	—5.6	—5.6	—4.6	—3.6	—12.6	—21.6	7.4
France	—5.6	—4.6	—4.6	—0.6	—12.6	—22.6	27.4
Italy	—7.6	—6.6	—5.6	—7.6	—14.6	—14.6	17.4
United Kingdom	—10.6	—7.6	—5.6	0.4	—19.6	—23.6	2.4

*Unallocated exports cause reported shares to total less than 100%.

Table 4

*Budget balances**

percent of GDP

	1981	1982	1983
General government balance**			
Germany	—4.0	—3.9	—3.3
France	—1.9	—2.6	—3.4
Italy	—11.7	—12.0	—12.0
United Kingdom	—2.5	—2.0	—2.5
United States	—1.0	—3.8	—4.4
Japan	—4.0	—4.1	—3.4
Discretionary change***			
Germany	+0.2	+1.5	+1.3
France	—1.1	+0.2	0.0
Italy	—2.4	+1.2	+1.5
United Kingdom	+2.8	+1.8	0.0
United States	+1.0	—1.1	—0.6
Japan	+0.6	+0.1	+1.4

*Source: OECD and MGT estimates.

**General government includes all levels of government and the social security system, but excludes state enterprises.

***Positive figures indicate shift toward surplus through policy restriction.

Table 5

Government spending

percent of GDP

	1961	1971	1981
EC	33.0	39.0	50.0
Germany	33.8	40.2	49.3
France	35.7	38.3	48.9
Italy	29.4	36.6	50.8
United Kingdom	33.4	38.4	47.3
United States	29.0	32.3	35.4
Japan	17.4	20.9	34.0

months of 1982, implying at best a modest increase in volume terms. Intra-EC trade would have contracted had not domestic growth boosted the imports of Germany and the United Kingdom. French exports, which rose almost 8% in volume in the third quarter from a year earlier, are particularly benefiting from increased German and U.K. demand.

Policy directions

Where recovery has occurred in Europe it has been led by domestic demand stimulated by expansionary monetary policies. Fiscal policy is dominated by the perceived need to reduce government spending and deficits. Following the second oil-price shock, most governments simultaneously adopted deflationary policies to inhibit a spiraling inflationary process. Despite the subsequent recession, fiscal policy has aimed to cut budget deficits through expenditure cuts and tax increases. But weak economic growth has tended to raise the deficits by increasing outlays for unemployment and other welfare benefits and by lowering tax revenues (see Table 4). Except in Britain, this cyclical influence outweighed discretionary deficit-reducing measures during 1981-82, so that actual budget deficits widened. Deficits now are fairly stable or shrinking in most major countries except France, where the deficit has again increased in 1983.

European concern with public spending and deficits is more than a passing response to the inflationary shock of the second oil-price increase. With income transfer programs in the vanguard, government spending has increased sharply over the past two decades (see Table 5), especially during the 1970s. For the EC as a whole, total government spending as a percent of GDP rose from 33% in 1961 to 39% in 1971 and exploded to 50% of GDP in 1981. Now there is a perceived need to reduce the size of government in order to release resources to the private sector and to revitalize entrepreneurship.

Accordingly, policymakers are reluctant to employ fiscal stimulus to give a short-term boost to recovery. The objectives of curbing deficits and halting the growth of government cannot be abandoned without drastically reducing long-run economic growth. Further increases in government spending and taxes would debilitate incentives in the private sector and cripple investment.

With fiscal policies dedicated largely to long-range objectives, monetary policy has become the main mechanism for boosting growth. Easier monetary policy has helped stimulate recovery in Germany and the United Kingdom. In France, by contrast, monetary policy has been tightened slightly as part of the austerity program. Real interest rates have risen and monetary growth has slowed. Italy also is pursuing a relatively tight monetary policy to fight inflation and to help offset the expansionary effects of the large public-sector deficit.

The major monetary thrust for recovery occurred in the second half of 1982. European interest rates declined as U.S. interest rates fell, stimulating interest-sensitive sectors, such as construction. But since the summer, most European interest rates have risen slightly while inflation rates have continued to fall (see Chart 4).

While German monetary policy is still expansionary, it has become less so over the course of the year. CBM (central bank money, the aggregate targeted by the Bundesbank) is growing just above its 4%-7% target range, but its growth has decelerated from 11% annualized

Chart 4

Real short-term interest rates
in percent

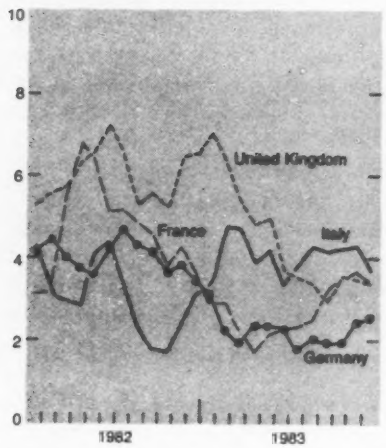


Table 6

Current account
billions of dollars

	1982	1983*	1984*
Germany	3.5	4.0	5.5
United Kingdom	9.5	0.0	2.0
France	—12.1	—4.2	—0.5
Italy	—5.8	—2.6	—0.7
Total	—4.9	—2.8	6.3
United States	—11.2	—38.0	—60.0
Japan	6.9	21.3	24.7

*Forecast.

Table 7

Real GDP
percent change

	1982	1983*	1984*
Germany	—1.1	0.9	2.5
United Kingdom	1.8	2.8	2.0
France	1.8	—0.2	0.0
Italy	—0.3	—1.0	0.0
Total	0.5	0.8	1.3
United States	—1.9	3.4	5.2
Japan	3.0	3.2	4.2

*Forecast.

in the first quarter to 6% in the third quarter. Because inflation has declined, the real money supply now is growing faster than in 1982, when CBM grew 6.1% on a fourth-quarter over fourth-quarter basis.

The United Kingdom experienced a similar money supply surge earlier this year, accommodating a period of fiscal ease before the election. The monetary aggregates have been growing more slowly since then but are close to the top of their target ranges. On that reckoning U.K. policy is stimulative. U.K. monetary ease is also suggested by the drop in nominal interest rates and the 8% decline in sterling's effective exchange rate since the summer quarter of 1982.

Given the continuing mood of fiscal retrenchment, expansionary monetary policy in Europe must continue to play an important role in supporting economic growth next year.

Declining U.S. interest rates or a weakening of the dollar may provide additional scope for lowering European interest rates in 1984 without raising questions about imported inflation. Still, high U.S. interest rates and the strong dollar are not the main constraints on European interest rate reduction, given German and British commitment to domestic monetary control. To make effective use of any room for maneuver afforded by dollar depreciation, if and when this occurs, European monetary authorities will have to be willing to raise their monetary growth targets or countenance some overshooting of the targets, as in the case of the Bundesbank, which has marginally lowered its target to 4%-6% for 1984 from 4%-7% in 1983.

Short-term outlook and medium-term prospects

Shrinkage of the French and Italian current account deficits (see Table 6) should permit both countries to relax their present severe restraint of domestic demand and thereby bring an end to their recessions during 1984. Renewed growth of these key export markets will accelerate Germany's overall economic recovery next year. Meanwhile, the British economy should continue to expand, though by less than this year's 2.8%. Real GDP of the four major European countries as a group is projected to advance 1.3% in 1984, about double this year's performance (see Table 7). Nonetheless, European recovery expectations for 1984 are weak in historical perspective or by comparison with the U.S. expansion. And, if present policies continue, Europe's economic growth will remain subdued even beyond 1984, averaging only 2%-2½% at best.

Some further decline in European inflation is anticipated in 1984 (see Table 8). While the inflation rate should stabilize in Germany and the United Kingdom, it will continue to fall in higher inflation economies, such as France and Italy. In the medium term, inflation may accelerate slightly as the recovery matures, productivity gains lessen, and wage and raw material price increases raise unit costs. But an investment-led recovery would minimize the reacceleration of inflation by increasing capacity and raising productivity to offset wage increases. A declining dollar also would reduce inflation in Europe by lowering import costs.

Unhappily, the moderate medium-term economic growth currently projected for Europe is scarcely higher than expected annual productivity increases and thus cannot be expected to reduce significantly the high level of unemployment that now exists. Yet no strategy that fails to promise lower unemployment over the next few years can be politically acceptable indefinitely. Economic